

Testimony Regarding H.B. 5014: An Act Making Adjustments to State Expenditures and Revenues for the Fiscal Year Ending June 30, 2013.

Department of Education Budget: Education Finance

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Appropriations Committee

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Senator Harp, Representative Walker, and distinguished Members of the Appropriations Committee:

I am a Senior Policy Fellow with Connecticut Voices for Children (Connecticut Voices), a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families. I am here today on behalf of Connecticut Voices to testify regarding *H.B. 5014: An Act Making Adjustments to State Expenditures and Revenues for the Fiscal Year Ending June 30, 2013*.

The governor's midterm budget increases the Education Equalization Grant by \$50 million. This is a prudent investment in the state's economic future – its children – that we wholeheartedly support. As you well know, the success of fiscal investments are determined by their implementation – the details. We welcome the additional funding but have concerns on details of the implementation that may result in unforeseen, and undesirable, consequences.

1) The ECS Formula

a) Measuring Income

We support replacement of per capita income with median household income as proposed, but disagree with obtaining income data from DECD. Connecticut Voices has found that the current use of Census 2000 data in the ECS formula benefits upper-income towns.¹

The proposed budget replaces Census 2000 per capita income data with more current median household income data from the DECD. However, DECD does not have independent calculations for personal income and would need to obtain this data from either the private sector or the American Community Survey (ACS, U.S. Census Bureau). The National Research Council (NRC) reported in 2007 that, "A weakness of the ACS...is the significantly larger margins of error in ACS estimates... The larger ACS sampling errors are a particular problem for small cities, counties, and other governmental jurisdictions."² Based on the most recent ACS data on median household income for towns, Deep River has the highest margin-of-error at 22.3%; 54 towns have a margin-of-error of at least 10%; and the average margin-of-error is 8.5%.³

It is inconsistent with the goal of equalization to use ACS data in the ECS formula. Alternative sources from the private sector are often proprietary and may not divulge critical information such as margins-of-error. The only viable alternative is income data from the state income tax return (Table 1), which is the source used by other New England states in their education funding formulas.⁴ Furthermore, it is expected that as many as 190,000 taxpayers will apply for the new Connecticut Earned Income Tax Credit, which will boost the number of tax returns from low-income areas making state tax data more representative of income disparity within the state.⁵

Table 1: Sources of Income Data

Source of Data on Median Household Income	Excluded Income	Margin of Error
CT Tax Return	Non-taxable income such as tax-exempt interest, IRA distributions, pensions and annuities, and social security income.	N/A. In 2009, there were 1.48 million CT income tax returns and 1.3 million occupied housing units. ⁶
American Community Survey (ACS)	Capital Gains	8.5% average margin-of-error for CT towns. Data is based on 20,503 self-reported surveys that are not verified. ⁷

b) Measuring Poverty

The Governor's proposal to use HUSKY A enrollment data as a proxy for poverty is a better option than either the current use of Title I data or the proposed alternative of free and reduced price meal eligibility (Table 2, pg. 3). While any poverty measure has its drawbacks, HUSKY A data is updated frequently and provides a more generous measure of poverty than Title I. Furthermore, though not all children in families under 185% of the federal poverty level qualify for, or enroll in, HUSKY A, the HUSKY A program has a much higher penetration rate than the school lunch program.⁸ Additionally, incorporating HUSKY A into the ECS formula provides the ancillary benefit of incentivizing towns to enroll all eligible children in HUSKY A.

However, the current poverty weight of 33 percent in ECS formula is arbitrary and is not based on the additional cost of educating high poverty students. Because there are particular difficulties in educating students living in the most severe poverty, a better measure would differentiate between levels of poverty. For instance, while Manchester Public Schools and Killingly Public Schools both have 49 percent of all students eligible for either free or reduced-price meals (requiring family income under 185 percent of the federal poverty level), only 34% of Killingly students are eligible for free meals (requiring family income under 130 percent of federal poverty level), while 41% of Manchester students are eligible for free meals.⁹ Therefore, even if Manchester and Killingly have similar numbers of students in families under 185 percent of the federal poverty level, they may have different percentages of students with the greatest levels of need (below 130 percent of the federal poverty level).

c) Recommendation

Connecticut Voices recommends that personal income data be derived from median household income based on state income tax returns. Similarly, the ECS Task Force issued a potential additional recommendation to "... use Connecticut adjusted gross income (AGI) as the income measure in the ECS formula."¹⁰ Otherwise, the ECS formula fails to equalize accurately because of a reliance on flawed and/or out-of-date income data.

In order to distinguish between varying levels of poverty, we recommend SDE work with DSS to provide a count of children in each town at various multiples of the federal poverty level based on income eligibility data collected for HUSKY A enrollment. This data could then be used in a tiered poverty weighting to distinguish between towns (severe vs. moderate poverty) and target more funding to the most severely impoverished students.

Table 2: Comparison of Poverty Data

Criteria	Title I Poverty (Current Measure)	Free/Reduced-Price Meal Enrollment	Husky A Enrollment (Proposed Measure)
Eligibility Cutoff	100% of the Federal Poverty Threshold ¹¹ (\$22,811 for family of four ¹²)	185% of the Federal Poverty Guidelines (\$41,348 for family of four)	185% of the Federal Poverty Guidelines (\$41,348 for family of four)
Source of Data	Census Bureau estimates of county child poverty rates adjusted by federal income tax information. ¹³	Count of enrollment in federal school lunch program from SDE	Count of children 5-17 receiving HUSKY A from DSS enrollment records
Advantages	Attempts to measure all children in families under certain income, not just those enrolled in a specific government program.	Widely-used proxy for student need. Would provide incentive for districts to enroll eligible children in school lunch program. Breakdowns for free lunch (130% FPL) also available.	Very current data available. More eligible children enroll in HUSKY A than in the school lunch program.
Drawbacks	Greatly undercounts student need. Based on estimate and hence subject to sampling error. Federal poverty threshold is low and does not capture many students in low- income families.	Many eligible students not enrolled, particularly in certain communities. Less stringent income verification than HUSKY A. Does not differentiate between deeper levels of student poverty.	Does not differentiate between deeper levels of student poverty. Excludes children ineligible (e.g. undocumented immigrants) or not enrolled in program, even if their family income falls below the 185% FPL.
Statewide count of students	68,661 (2010) ¹⁴	188,284 (10/1/2010) ¹⁵	256,052 (12/1/2011) Includes all children under 19, as a breakdown of 5-17 year olds is not publicly available. ¹⁶

2) Actual Town Funding from ECS

a) Overfunding Towns

The interim report by the ECS Task Force states: “The budget acts of 2009 and 2011 each overrode the statutory ECS formula and specified each town’s ECS grants...”¹⁷ These increases in ECS funding resulted in some towns being funded *above* their ECS maximum because new funding levels were based on prior amounts without sufficient regard for the ECS target amount.¹⁸

b) MBR and Supplanting of Locally-Derived Education Funds

The proposed “minimum local funding percentage” requires conditional funding districts to appropriate a minimum 30 percent towards their education budget. This is a good step towards restricting the supplanting of local funds but the focus should be on 30 percent of *expenditures* - not appropriations. Furthermore, it is proposed that: “Any increase in ECS aid may be added to the board of education at the discretion of the municipality.”¹⁹ In short, increases in ECS are *not* required to be spent on education. Currently, local tax dollars collected for education are *not* required to be spent on education.

The net result is an inherent supplanting of local funds as local education monies can be shifted to non-education purposes and increases in ECS monies do not need to be spent on education. This is a violation of Section 10-262i (Grant payments. Expenditures for educational purposes only; exception. Prohibition against supplanting local funding. Minimum budget requirement; exception. Penalty), which aims to halt the supplanting of local education funds by ECS.

c) Recommendation

No town should receive ECS funding above their maximum entitlement and those that are *overfunded* should have their funding levels reduced to their maximum. The “minimum local funding percentage” should be applied to all towns, not only to conditional funding districts. It is necessary to mandate explicitly that all education monies (local, federal, state, and private) must be *spent*, not merely budgeted, on education. The interim report by the ECS Task Force includes the potential additional recommendation: “Ensure that towns spend money allocated for education on education”²⁰

3) Charter School Funding

a) Comingling of Charter School Funds and ECS Funds

When considering charter school funding, it is important to note the intent of ECS is to “...equalize state education funding to towns by taking into account a town’s wealth and ability to raise property taxes to pay for education.”²¹ Such comingling of education monies fiscally combines equalization and choice; potentially resulting in unknown, and undesirable, consequences.

The reallocation of \$59.8 million in charter school funding into the ECS formula is inappropriate given that charter school funding is fixed (not driven by equalization), whereas the ECS formula is focused exclusively on equalization. A practical consideration is that broadening the ECS formula to include charter school funding would further confuse an already unwieldy ECS formula and add unnecessarily to the potential for errors in calculating town funding, with the sole intent of functioning as an accounting pass-through. In addition, it would increase the administrative burden of towns without reducing state bureaucracy.

b) Requiring Towns to Contribute to Charter School Funding

ECS does not fund towns for students attending charter schools (the resident student count excludes charter school attendees). Consequently, requiring towns to pay charter schools (\$1,000 for each attending resident) would force towns to either raise local taxes, reduce education spending on local schools, or reduce local non-education spending. All of these options ignore a town’s ability to pay and student need, which is the basis of equalization.

Furthermore, the state’s poorest towns would be the most adversely impacted with school districts in DRG I having to pay \$4.8 million to charter schools.²²

c) Recommendation

We are strongly against the comingling of ECS funds with charter school funds and other non-equalization-based funding *at this time*. We are also against requiring towns to contribute \$1,000 per resident student for charter school attendees.

The ECS Task Force has raised the possibility of extending equalization funding to charter schools, magnets, regional agricultural science centers, and vocational-technical schools.²³ A final determination must be made before comingling equalization funds with charter school funds. Until then, it would be analogous to *putting the cart before the horse* with unknown consequences and creating an a priori bias for future discussions.

4) Chart of Accounts

a) Uniform Accounting System

The implementation of a uniform accounting system for all public school institutions is crucial for determining the true cost of education in Connecticut. This will allow the state to make more informed decisions in the future and make a clearer determination of whether ECS monies are supplanting local funding.

b) Recommendation

To ensure comprehensive accounting and clarify intent, we recommend that the proposed statute requiring a uniform system of accounting stipulate revenue from all sources: local, federal, state, and private. The accounting system also must take into account monies budgeted for education, in addition to expenditures. Furthermore, the accounting system must be able to determine whether local taxes collected for education were shifted to non-education purposes and whether ECS funding is supplanting local education funding.

Thank you for this opportunity to testify regarding H.B. 5014.

Endnotes

- ¹ Rodriguez, Orlando, Presentation to the ECS Task Force, November 17, 2011, <http://www.cga.ct.gov/cd/CostSharing/Documents/CT%20Voices%20for%20Children%20testimony.pdf>
- ² Rodriguez, Orlando, and Jacob Siegel, *Problems with Connecticut's Education Cost Sharing Grant*, http://www.ctkidslink.org/pub_detail_533.html
- ³ American Community Survey (2006 to 2010) table B19013.
- ⁴ Rodriguez, Orlando, Presentation to the ECS Task Force, November 17, 2011, <http://www.cga.ct.gov/cd/CostSharing/Documents/CT%20Voices%20for%20Children%20testimony.pdf>
- ⁵ GOV. MALLOY: STATE EARNED INCOME TAX CREDIT MORE SUCCESSFUL THAN EXPECTED, <http://www.governor.ct.gov/malloy/cwp/view.asp?a=4010&Q=499050>
- ⁶ The number of municipal returns provided by the CT Dept. of Revenue Services. The number of occupied housing units from 2009 ACS CP04.
- ⁷ Sample size from http://www.census.gov/acs/www/methodology/sample_size_data/index.php
- ⁸ Undocumented immigrant—even children—are ineligible for HUSKY A, for instance. In addition, children in families under 185% FPL who have insurance through some other source or who have simply not enrolled in the program would not be counted.
- ⁹ Connecticut State Department of Education. "Connecticut Schools Participating in the National School Lunch Program-Free and Reduced Price Lunch Eligibility October 2010." SDE Bureau of Health, Nutrition, Family Services and Adult Education. 8 December 2011. Excel File.
- ¹⁰ Task Force to Study State Education Funding Interim Report, January 19, 2012, p.14, <http://www.cga.ct.gov/cd/CostSharing/Documents/ECS%20Interim%20Report%20Final%201-19.pdf>
- ¹¹ The federal poverty threshold (issued by the U.S. Census Bureau) and the federal poverty guidelines (issued by the U.S. Department of Health and Human Services) differ slightly. See U.S. Department of Health and Human Services. "Frequently Asked Questions Related to the Poverty Guidelines and Poverty." Available at: <http://aspe.hhs.gov/poverty/faq.shtml>.
- ¹² The threshold differs slightly depending on family composition. The threshold for a two parent, two child family is listed.
- ¹³ Full methodology available at U.S Census Bureau. "Small Area Income and Poverty Estimates: 2010 Overview of School District Estimates." Available at: <http://www.census.gov/cdid/www/saie/methods/schools/data/2010.html>.
- ¹⁴ U.S Census Bureau. "Small Area Income and Poverty Estimates: Estimates for The United States, 2010. Ages 5-17 in families in poverty, 2010." Available at: <http://www.census.gov/cgi-bin/saie/national.cgi#SA51>.
- ¹⁵ Connecticut State Department of Education. "Connecticut Schools Participating in the National School Lunch Program-Free and Reduced Price Lunch Eligibility October 2010." SDE Bureau of Health, Nutrition, Family Services and Adult Education. 8 December 2011. Excel File.
- ¹⁶ Connecticut Department of Social Services. HUSKY A Enrollment Report: December 2011. Available at: <http://www.huskyhealth.com/hh/lib/hh/pdf/Reports/HUSKYAEnrollment1211.pdf>.
- ¹⁷ Task Force to Study State Education Funding Interim Report, January 19, 2012, p.5, <http://www.cga.ct.gov/cd/CostSharing/Documents/ECS%20Interim%20Report%20Final%201-19.pdf>
- ¹⁸ Rodriguez, Orlando, and Jacob Siegel, *Problems with Connecticut's Education Cost Sharing Grant*, http://www.ctkidslink.org/pub_detail_533.html
- ¹⁹ Governor Malloy's Proposed Education Budget, Feb. 2012, p.14, http://www.ct.gov/opm/lib/opm/budget/2012_midterm_budget/pdfs/educationhighlights.pdf
- ²⁰ Task Force to Study State Education Funding Interim Report, January 19, 2012, p.15, <http://www.cga.ct.gov/cd/CostSharing/Documents/ECS%20Interim%20Report%20Final%201-19.pdf>
- ²¹ Task Force to Study State Education Funding Interim Report, January 19, 2012, p.3, <http://www.cga.ct.gov/cd/CostSharing/Documents/ECS%20Interim%20Report%20Final%201-19.pdf>
- ²² Governor Malloy's Proposed Education Budget, Feb. 2012, p.19, http://www.ct.gov/opm/lib/opm/budget/2012_midterm_budget/pdfs/educationhighlights.pdf

²³ Task Force to Study State Education Funding Interim Report, January 19, 2012, p.17,
<http://www.cga.ct.gov/ed/CostSharing/Documents/ECS%20Interim%20Report%20Final%201-19.pdf>